Industrial Growth Management Limited

Annual Report

for the Year ending March 31, 1971

BOARD OF DIRECTORS

Richard C. W. Mauran
President, Industrial Growth Management Limited
Chairman of the Board and President, Harvey's Foods Limited
Chairman of the Board, Grissol Foods Limited

George B. Sukornyk, Q.C.
Vice-President, Industrial Growth Management Limited
Secretary, Grissol Foods Limited

Alexander Christ
Vice-President, Industrial Growth Management Limited

J. W. Nevil Thomas
Vice-President, Industrial Growth Management Limited
Director, Midland-Osler Securities Limited

James A. Stephenson
Secretary-Treasurer, Industrial Growth Management Limited
Barrister and Solicitor, Beaton Leake & Fellowes

OFFICERS:

Richard C. W. Mauran
President

George B. Sukornyk, Q.C.
Vice-President

Alexander Christ
Vice-President

J. W. Nevil Thomas
Vice-President

James A. Stephenson
Secretary-Treasurer

Irmgard Schulz
Assistant-Secretary

HEAD OFFICE

238 Bloor St. West,
Toronto 181, Ontario

TRANSFER AGENT AND REGISTRAR

The Canada Trust Company

AUDITORS

Price Waterhouse & Co.

BANKERS

Canadian Imperial Bank of Commerce
The Royal Bank of Canada

COUNSEL

Beaton, Leake & Fellowes
Shibley, Richton & McCutcheon

TO OUR SHAREHOLDERS

It is with pleasure that I present our second annual report.

Industrial Growth Management Limited (IGM) was incorporated on July 21, 1967, as a management company designed to manage pools of capital both on a fee basis and make investments for its own account. As a result IGM manages the funds of a public open-end mutual fund and invests its own surplus funds primarily in younger companies where considerable growth potential exists and where the business and financial experience of the IGM management can be of benefit.

The Company's year-end has been changed from January 31 to March 31 in order to coincide with the fiscal year-end of one of our portfolio's major investments.

Net income from operations was $57,101 for the 14 months ended March 31, 1971. This compared with a net income of $64,031 for the 12 months ended January 31, 1970.

Therefore the change in net income from operations was slight and the decrease was primarily due to increased expenditures involving the investigation of investment proposals. For the fiscal year ending March 31, 1971 there was a loss on sale of investments of $254,376 and a profit on the redemption of subordinated debentures of $154,600. For the fiscal year ended January 31, 1970, there occurred a net profit of $124,100 on the sale of investments.

There were several major transactions which highlighted the year and which are explained further under the description of some principal investments later in the annual report. The most significant of these was the increased investment in Harvey's Foods Limited. IGM invested an additional $500,000 cash directly with the Company in a private financing. In return, Harvey's issued IGM 1,404,878 common shares and agreed to redeem the 10,000 5½% first preference shares, Series A, which were held by IGM. The common shares were issued at a value of 61½¢ per share. In addition, IGM purchased 278,700 common shares of Harvey's in the open market at a cost of 60¢ per share. This increased investment in Harvey's was paid for by using available cash, the sale of 60,000 shares of Grissol Foods, 15,000 shares of Potter Distillers and short term borrowings.

Another important transaction involved our investment in the Queensbury Syndicate. Queensbury was a corporate partnership which included IGM and which was formed to develop a piece of land in the west-end of Toronto. Early in 1971 the property was sold and IGM received a $1,018,078 mortgage on part of the land representing its share of the transaction. Shortly thereafter, IGM was presented with the opportunity to purchase $1 million par value of its long term debentures at a substantial discount. A majority of the interest on these bonds was not a deductible expense in IGM's accounts and therefore it was a decided advantage to redeem them. In order to take advantage of this opportunity, IGM found a buyer for the mortgage on the aforementioned property and used the proceeds to redeem the bonds for 50¢ on the dollar. Although the discount on the sale of the mortgage was large, the total transaction will result in an increase in IGM's annual cash flow. We believe that these transactions will prove to have been very fortuitous for IGM over the longer term.

The Company's first fiscal year, since going public, was devoted primarily to making the operational transition from a private to a public company and in investing surplus funds. The second year has been devoted to adjusting the portfolio to the realities of changed market conditions and concentrating both our management capabilities and financial resources toward those areas which we believe will offer the greatest return.

The major change which took place during the past 2 years occurred in the securities and money markets. The substantial decline in stock prices, the large increase in the level of interest rates and the reduced availability of money have caused severe hardships for younger companies, whether public or private. The resulting inability to obtain funds at a reasonable cost or at all has threatened many businesses. This has caused a shifting in IGM's priorities. First, the above conditions have resulted in the availability of several attractive investment opportunities because of the hardships these companies were experiencing due to the lack of funds. However, it became apparent as the year progressed that an initial investment at attractive terms could be jeopardized if sufficient funds could not be provided on a continuing basis. This latter factor has caused IGM not to undertake any further new investments unless there existed the probability of IGM being a continual source of funds in the event that other outside financing could not eventually be arranged at proper terms. Secondly, although several of IGM's major investments are public, the poor securities markets have prevented proper financing for these companies. Therefore, IGM has had to take the role of being the prime banker for these concerns with the objective of protecting our initial investment and furthering the progress of the company.

We see no change in these conditions in the year ahead and are therefore continuing to concentrate our funds and management time on our major investments. We believe that this policy will prove to be the best route for increasing the return on the shareholders' equity.

Respectfully

R. C. W. MAURAN
President

July 27, 1971

DESCRIPTION OF SOME PRINCIPAL INVESTMENTS

Canadian Reserve Investors Limited

This company is a holding company with its principal asset being a 100% interest in the common shares of Reliable Life Insurance Company, a Hamilton, Ontario based life insurance company. IGM first invested in Canadian Reserve in 1968 after searching the Canadian industry for a suitable vehicle as an entry into this industry. Canadian Reserve then purchased a 37% interest in Reliable Life as of year-end 1969, assisted by a further financing by IGM. During early 1970, Canadian Reserve acquired in exchange for its common shares the balance of the outstanding shares of Reliable Life not already held. If all its equity holdings were fully converted, IGM would hold 19% of the then outstanding common shares of Canadian Reserve.

The past year was a particularly difficult one for the Accident and Health sectors of the industry and Reliable's business in this area reflected these conditions. However, management has taken several steps to strengthen its position in this area and we are satisfied that a growth pattern can be resumed.

Grissol Foods Limited

Grissol is a public company, listed on the Toronto and Montreal Stock Exchange, which is a successful manufacturer, packager and distributor of a large variety of food products which has exhibited a rate of growth far superior to the industry in which it operates. With the assistance of a $2 million financing by IGM, the Company during 1969 completed the purchase of Viau Limitée, a manufacturer of biscuits, chocolates, and candies; and Taillefer & Fils Inc., a private company which manufactures and distributes prepared meat products. These acquisitions considerably enlarged the company's base and are contributing to increased profitability.

We reduced our holding in Grissol slightly by selling 60,000 common shares in the past year. However, this was done primarily to provide some of the funds for a Harvey's Foods' financing and in no way indicates a change in our attitude toward the Company. Grissol remains one of our major investments with good prospects for longer term growth.

Harvey's Foods Limited

Harvey's, a public company listed on the Toronto Stock Exchange is one of the leading Canadian "fast-food" franchising companies operating under the well known names of "Harvey's" and "Swiss Chalet Bar-B-Q". Your management was one of the founding investors in this successful young company and holds various forms of Harvey's securities. Fiscal 1970 and 1971 proved to be difficult years for the Company as the capital markets prevented adequate financing which would have continued the rapid expansion programme followed during the past few years. Thus it was decided to continue to run the current stores on an efficient basis and to keep new openings in line with internal cash flow until financing could be arranged on a sound basis. Satisfied that management was pursuing its goals wisely and being impressed with the increased level of efficiency shown during the past 2 years, IGM provided additional financing for the Company near the end of 1970, (as explained in the President's letter to shareholders) which was designed to primarily strengthen Harvey's working capital position. In addition, we increased our common stock position somewhat through open market purchases. We feel that during 1971 Harvey's will once again begin to show a satisfactory level of earnings.

We continue to believe that the industry is sound and that the company's competitive position within the industry is strong. However, the stock price continues to relect the somewhat irrational behavior of the franchising group of stocks. We note that up until early 1968 it was difficult to interest any investor in a so-called "hot-dog stand" company. Then the U.S. counterparts became market favourites and the stock became so popular that it sold at an extensive price-earnings ratio throughout 1968-69. Then during 1969-70, the group lost favour and currently the stock sells below book value.

As earnings recover, we believe a more satisfactory relationship between the stock price, earnings and book value will materialize.

Industrial Growth Fund — Industrial Pension Fund

IGM has the exclusive management contract to manage the assets of the Industrial Growth Fund, an open-end mutual fund which began in 1968. With assets of approximately $3 million, IGM is able to make a profit in managing these funds and considerable leverage exists as assets under administration grow. The fund was started too late to experience any infusion of public funds during the great popularity for mutual funds in 1967-68 but has likewise avoided any redemption problems during the weak markets of 1969-70. Particular emphasis has been laid on managing the funds of other organizations such as pension funds and we feel this area offers considerable potential. The fund's record for its 3½ years of operation is superior to the market averages and above-average within its industry. We believe we are building a record of capable money management which will gradually result in increased assets under administration.

Subsequent to the year-end, during May 1971, we started a new mutual fund — Industrial Pension Fund — designed to provide employer pension funds and other tax exempt institutions with professional management.

Knogo Corp. (New York) — Knogo Corporation Limited

The Knogo anti-pilferage detection system is a revolutionary new product aimed at preventing shop lifting. Designed for department stores and other retail outlets, the Knogo system is based on a small electronic wafer, which is attached to every garment and may only be removed by means of a special cutting machine at the time of purchase. If the merchandise is taken from the department store with the wafer still attached, an electronic beam is broken, thereby sounding an alarm which activates a warning signal. Reports from users indicate that the KNOGO system has had a significant effect in cutting down on store pilferage. Users in the United States have been operating the KNOGO system for up to 3 years. We feel this is a technically feasible system which offers major growth potential. The direct benefit to the merchandiser is that it attacks a major problem in the retailing industry and, if successful, is likely to penetrate the entire industry.

IGM entered this situation by financing the U.S. company in early 1969 vie a $500,000 (U.S.) 6% debenture convertible into a 10% equity interest in the U.S. company and for this financing IGM received the exclusive Canadian, Commonwealth, and German franchise rights for the production and distribution of the KNOGO system. The U.S. company developed the product over 4 years ago and began to directly market the product in 1969. Sales are proceeding well and a franchise sales programme was started in 1969. Now that profitability has been achieved, there exists the possibility that the management may choose to do a public financing during 1971. In such an event IGM's investment would be tangibly worth more. Otherwise, the debenture remains well secured with growth expected during the next few years.

The Canadian company — KNOGO Corporation Limited — was started in 1969 and began marketing the product in Canada in the fall of 1969. Initial sales responses and the results from the early customers indicate substantial benefit in reducing pilferage. The Canadian company sold shares to the public in March 1970 which yielded the Company approximately $600,000, enabling it to proceed with its manufacturing and marketing program adequately financed. IGM holds an important interest in the Canadian company. Although a completely new product which holds the inherent risks of any untried product, we feel the potential well justifies the risks and the initial progress in both companies has been satisfactory. For many decades retailers have been passing along to their customers through increased prices the costs of stolen merchandise. It is understandably difficult for retailers to adopt new security procedures and systems overnight. However, the problem of increasing inventory shrinkage in the retail industry is focusing great attention on security and pilferage control devices such as the KNOGO System.

KNOGO Corporation Limited recently acquired the assets of Datatran Computer Services Limited and all the shares of Advanced Computer Dynamics Schools Limited. These purchases were financed by the issuance of serial debentures resulting in no decrease of KNOGO's working capital and in no equity dilution. Datatran, now carrying on business as a division of KNOGO, is a computer service bureau. Advanced Computer Dynamics Schools Limited, operating under the name of Bedford College, offers students computer instruction in key punching and programming. Combined, these two operations have been profitable to date and it is hoped that their future earnings will substantially increase KNOGO's cash flow. There are approximately seventy-five people employed in these companies, and this addition of technical and managerial know-how should prove a valuable asset to KNOGO in the years to come.

Spretty Corporation Ltd.

The investment in Spretty Corporation Ltd. was made in May 1969 at which time Spretty Corporation Ltd. acquired control of all the outstanding shares of Tilly Manufacturing Ltd. (formerly Tillotson Rubber Co. Ltd.).

A high quality toy manufacturer since 1940, Tilly Manufacturing Ltd. is the largest Canadian manufacturer of Latex baloons, beach balls, punch balls, and vinyl dolls and squeeze toys, distributed to large department stores and toy stores across Canada under trade mark "Tilly".

In January 1970 Tilly Manufacturing Ltd. acquired all the assets and the business of L. Tanguay Products Ltd. of Sherbrooke, Quebec, a subsidiary of the Oak Rubber Company, Ravenna, Ohio. L. Tanguay Products Ltd. was engaged in balloon manufacturing, specializing in advertising balloons and in minted wrapped advertising toothpicks. All assets were moved to the plant of Tilly Manufacturing Ltd. in St. Johns, Quebec. This investment was made because of an attractive purchase price for a stable, profitable business. The prospects for future growth were enhanced by the attraction of an aggressive new management to replace the retiring management. Spretty is, at present, a wholly owned subsidiary of IGM offering good prospects for the enhancement of our investment.

INDUSTRIAL GROWTH MANAGEMENT LIMITED

BALANCE SHEET

ASSETS

	March 31 1971	January 31 1970
Current assets		
Cash and bank deposit receipts	$ 671,836	$ 226,048
Short-term note, at cost	99,624	—
Prepaid income taxes	10,892	—
Serial debentures — amount due within one year	—	240,000
Accrued interest and dividends receivable	64,343	57,222
Other accounts receivable, deposits and advances	20,905	6,915
Total current assets	867,600	530,185
Investments, at cost (Note 2)		
Securities with quoted market value (market value — $1,831,947; 1970 — $1,292,342)	3,419,843	1,486,359
Securities without quoted market value	10,740,357	13,185,004
Investment property	83,525	92,656
	14,243,725	14,764,019
Fixed assets, at cost, less accumulated depreciation of $14,166 (1970 — $8,072)	14,547	20,641
	$15,125,872	$15,314,845

APPROVED ON BEHALF OF THE BOARD:

R. C. W. MAURAN, Director

ALEXANDER CHRIST, Director

The notes to financial stat

LIABILITIES

	March 31 1971	January 31 1970
Current liabilities		
Accounts payable and accrued liabilities	$ 82,811	$ 129,025
Demand note payable to a shareholder	320,000	—
Income taxes payable	—	17,700
Total current liabilities	402,811	146,725
5% Subordinated sinking fund debentures, due January 31, 2009 (Notes 3 and 4)	4,000,000	4,000,000
5% Convertible subordinated debentures due June 1, 1989	—	400,000
7½% Mortgage payable	14,571	16,955
Total liabilities	4,417,382	4,563,680

SHAREHOLDERS' EQUITY

	March 31 1971	January 31 1970
Capital stock		
Authorized — 1,000,000 7% non-cumulative non-voting preference shares redeemable at par value of $10 each; 1,500,000 common shares without par value		
Issued and fully paid —		
900,000 preference shares	9,000,000	9,000,000
330,000 common shares (Note 5)	1,159,910	1,159,910
Retained earnings	548,580	591,255
	10,708,490	10,751,165
	$15,125,872	$15,314,845

re part of this statement.

STATEMENT OF INVESTMENTS

March 31, 1971

	Number of shares	Cost	Quoted market value
Securities with quoted market value			
Harvey's Foods Limited, common shares (Note 2 (a))	1,915,278	$2,704,645	$1,532,222
Knogo Corporation Limited, a subsidiary company, common shares (Note 2(f))	236,520	497,698	202,225
Rapid Data Systems & Equipment Ltd., 6% cumulative, redeemable, convertible preferred shares, par value $7.25	30,000	217,500	97,500
		$3,419,843	$1,831,947

	Par value or number of shares	Cost	
Securities without quoted market value			
Canadian Airlift Limited, common shares	$ 15,000		$ 15,000
Canadian Reserve Investors Ltd., common shares	119,680	60,201	
6% cumulative, convertible, non-voting, Series A, preference shares, par value $25	5,400	135,000	195,201
Chateau Montlabert Inc., common shares	500		4,400
G. Gordon Symons Ltd., common shares	160	1,600	
7% cumulative redeemable preferred shares, par value $10	800	8,000	9,600
The Granure Corporation Limited, common shares	9,500		
10% debentures due 1973-75	$ 30,000		30,000
Grissol Foods Limited, share purchase warrants	200,000		100,000
Grissol Properties Limited 6% first mortgage bond due July 1, 1989	$2,000,000		1,900,000
			$2,254,201
Harvey's Foods Limited (Note 2 (a))			
Second preference shares (convertible)	6,400	$3,550,725	
Series 2 (1967) share purchase warrants	390,000	2,765,100	
Series 3 (1968) share purchase warrants	30,000	212,700	
7½% sinking fund debentures, Series A due April 15, 1974	27,000	27,000	
8½% convertible debentures, Series D, due June 1, 1978	205,000	205,000	
12% first mortgages, due March 15, 1973	240,000	240,000	
12% second mortgage, due March 15, 1973	50,000	50,000	7,050,525
Helix Investment Ltd., common shares	10,000	10,000	
6% redeemable non-cumulative preferred shares, par value $10.00	10,000	100,000	110,000
Industrial Pension Fund, Mutual fund shares	10,000		100,000
Knogo Corporation Limited Share purchase warrants (Note 2 (f))	245,000		24,500
Knogo Corporation (New York) (Note 2 (c)) 6% debentures, due May 15, 1979 U.S.	500,000		540,031
Spretty Corporation Ltd. a subsidiary company, Common shares Note 2(d))	110	1,100	
5% non-cumulative, redeemable, non-convertible preference shares	5,100	510,000	511,100

	Par value or number of shares		Cost
Twin Richfield Oils Ltd.			
8% convertible debentures, due: June 30, 1974	150,000	148,750	
Share purchase warrants	12,500	1,250	150,000
			$10,740,357

Investment property	
Building, at cost	$ 74,500
Equipment, at cost	9,750
	84,250
Accumulated depreciation	18,131
	66,119
Land, at cost	17,406
	$ 83,525

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	14 months ended March 31 1971	Year ended January 31 1970
Source of funds:		
Operations —		
Income (loss) before extraordinary item	$ (197,275)	$ 188,131
Depreciation	15,226	16,527
Loss (gain) on sale of investments	254,376	(124,100)
	72,327	80,558
Issue of common shares	—	920,000
Issue of 5% convertible subordinated debentures due June 1, 1989	—	400,000
Mortgage	—	16,955
Sale of investments	3,288,920	2,640,672
	3,361,247	4,058,185
Application of funds:		
Purchase of investments	3,032,133	6,116,568
Acquisition of land, buildings and equipment	—	127,644
Cost of share issue	—	14,564
Redemption of 5% convertible subordinated debentures due June 1, 1989	245,400	—
Mortgage payments	2,385	—
	3,279,918	6,258,776
Increase (decrease) in funds for the period	$ 81,329	$(2,200,591)

The notes to financial statements are part of these statements.

STATEMENT OF INCOME AND EXPENSES AND RETAINED EARNINGS

	14 months ended March 31 1971	Year ended January 31 1970
Income:		
Interest	$357,929	$318,507
Dividends	36,111	56,617
Management fees	78,138	42,865
Other	2,940	5,325
Rental	5,000	—
	480,118	423,314
Expenses:		
Interest on long term debt	238,931	212,575
Income taxes	35,500	47,109
Salaries	46,024	31,070
Office and general	34,899	25,303
Depreciation	15,226	16,527
Legal and audit	29,128	16,291
Custodian fees	6,276	7,875
Miscellaneous	4,833	2,533
Investment research	12,200	—
	423,017	359,283
Net income from operations	57,101	64,031
Gain (loss) on sale of investments (Note 2 (e))	(254,376)	124,100
Income (loss) before extraordinary item	(197,275)	188,131
Gain on redemption of 5% convertible subordinated debentures due June 1, 1989	154,600	—
Net income (loss) for the period	(42,675)	188,131
Retained earnings at beginning of period	591,255	417,688
Underwriting commissions and expenses of common share issue	—	(14,564)
Retained earnings at end of period	$548,580	$591,255

NOTES TO FINANCIAL STATEMENTS

1. Commencing in 1971, the fiscal year end of the Company was changed from January 31 to March 31 in order to coincide with that of Harvey's Foods Limited.
2. Investments, at cost:
   (a) Harvey's Foods Limited —
   The investment in 6,400 second preference shares, with a par value of $1 each, of Harvey's Foods Limited, and upon which the dividend rights have been waived is convertible into an aggregate of 480,000 common shares of that company at the rate of 150,000 common shares per year.
   The investment in 390,000 Series 2 (1967) share purchase warrants and 30,000 Series 3 (1968) share purchase warrants of Harvey's Foods Limited entitles the holder to purchase an aggregate of 420,000 common shares of that company at $2.50 per share on or before May 15, 1977.
   The investment in 1,915,278 common shares is stated at cost of $2,704,645 and in the above second preference shares and share purchase warrants at cost of $6,528,525. In the case of the common shares, the market value at March 31, 1971 is $1,172,423 below cost and in the case of the second preference shares and share purchase warrants, any imputed value, based upon the market value of the common shares at March 31, 1971, is significantly below cost. The Company does not believe that a value based on the present market price of the common shares represents the intrinsic value of these securities and, in the absence of any other reasonable basis of valuation, believes that these securities should be carried at their aggregate cost of $9,233,170.
   (b) Grissol Foods Limited and Potter Distillers Limited —
   On December 3, 1970, the Company sold to Mr. R. C. W. Mauran, president of the Company, and a director of Grissol Foods Limited and Potter Distillers Limited the following shares valued on the basis of market quotations at the time of sale:

	Number of shares	Cost	Consideration
Grissol Foods Limited	60,000	$420,000	$270,000
Potter Distillers Limited	15,000	$ 71,781	$ 67,500

(c) Knogo Corporation (New York) —
The Company is entitled to receive, no later than May 15, 1972, share purchase warrants to purchase at least 100,000 common shares of Knogo Corporation (New York) at no more than $5 per share for a period of ten years.

(d) Spretty Corporation Ltd. —
Under an agreement dated April 3, 1970, B.C.T. Enterprises Ltd. acquired an option to purchase up to 20% of the capital stock of the Company's wholly owned subsidiary Spretty Corporation Ltd. at a price of $100 per preferred share and $10 per common share.

(e) Queensbury Syndicate —
During the year Queensbury Syndicate sold its principal asset, a parcel of land in Metropolitan Toronto to Cadillac Development Corporation Limited and Danbury Developments Limited. The Company received in settlement of its participation in the Syndicate a 5¼% first mortgage due February 1, 1975, of $1,018,078. This mortgage was subsequently assigned for a cash consideration of $540,000. The loss arising from participation in Queensbury Syndicate of $29,012 was incurred as follows:

Investment in Queensbury Syndicate — At January 31, 1970	$532,831	
Additional costs incurred to March 31, 1971	36,181	
		$569,012
Proceeds — Receipt of 5¼% first mortgage due February 1, 1975 of $1,018,078; assigned for		540,000
Loss on investment		$ 29,012

(f) Knogo Corporation Limited —
92,000 common shares and 245,000 share purchase warrants of Knogo Corporation Limited owned by the Company have been deposited with a trust company under the terms of an escrow agreement and may be released only by written approval of the Ontario Securities Commission.

3. Sinking fund requirements of the 5% subordinated sinking fund debentures due January 31, 2009 are $200,000 in each of the years ending January 31, 1990 to 2008 inclusive.

4. On April 30, 1971 the Company purchased for cancellation $1,000,000 principal amount of 5% subordinated fund debentures due January 31, 2009 for a cash consideration of $500,000.

5. Common share purchase warrants:

There were issued on January 2, 1969 to the purchasers of the 5% subordinated sinking fund debentures due January 31, 2009 share purchase warrants entitling the holders thereof to purchase at any time an aggregate of 800,000 common shares of the Company at a price of $10 per share as adjusted from time to time in accordance with the provision of a warrant indenture made as of December 15, 1968. The holders of these warrants are entitled to receive additional share purchase warrants in the event of the issuance by the Company of additional common shares or rights, obligations or shares convertible into common shares.

At March 31, 1971 835,000 common shares were reserved for issue under these warrants as follows:

Original share purchase warrants (exercisable at $10 per common share)	800,000
Additional warrants issued — Series A warrants (exercisable at $20 per common share)	14,000
Series B warrants (exercisable at $16.66 per common share)	21,000
	835,000

AUDITORS' REPORT

To the Shareholders of Industrial Growth Management Limited:

We have examined the balance sheet and the statement of investments of Industrial Growth Management Limited at March 31, 1971 and the statements of income and expenses and retained earnings and source and application of funds for the fourteen months then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

The Company carries its investment in common shares, convertible preference shares and share purchase warrants of Harvey's Foods Limited at a total cost of $9,233,170. Any actual or imputed value of these investments based on the present market value of the common shares of Harvey's Foods Limited (as referred to in Note 2(a) to the financial statements) is significantly below this cost and we are unable to determine the amount at which these investments should be carried in the financial statements. Subject to the foregoing qualification, in our opinion the financial statements present fairly the financial position of the Company as at March 31, 1971 and the results of its operations and the source and application of its funds for the fourteen months then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
May 11, 1971

PRICE WATERHOUSE & CO.
Chartered Accountants